

Innovation Management: Policy Buzzword or Critical Success Factor?

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This is one of a continuing research series that has been bringing senior managers and executives from diverse sectors together to uncover the best practices in managing innovation.

Executive Summary

Innovation is not just a policy buzzword; it is a critical success factor for business today. And making it happen has a lot to do with leaders articulating the needs, the vision and the priorities for their organization. This was the view of a panel of executives brought together for the latest segment of Schulich Executive Education's Business Pulse Project on Innovation.

Organizations can find innovation by combining their strengths with approaches from different industries, other business partners, or unique market conditions. Leaders need to articulate the needs, the vision and a few key priorities for innovations to succeed.

While organizational crises can provide the impetus for major change, too much pressure and fear can suppress all risk-taking on the part of employees. Conversely, a dominant market position can breed a sense of entitlement and complacency, reducing the felt need to innovate.

Capital markets are perceived to discourage investment in innovation by mature publicly traded companies that may reduce reliability and predictability of results. Venture capital is a countervailing force funding high-risk, high-payoff start-ups to compete with established firms.

To sustain innovation, organizations need to enhance their capability for dialogue and organizational learning.

Finding Innovation in the Fusing of Concepts

Innovative organizations are likely to be focused on understanding and meeting the needs of customers, rather than seeking innovation for its own sake.

"It's looking at what you do well but looking at it differently, combining with somebody else to create what the customer wants"

"What helps us most in our process of innovation is our customers. We put our customers first, understanding what their needs are and listening to what the experience is like for them."

Innovative products and market strategies can arise by combining the strengths of one's own organization with the strengths of another organization or approach. Panelists pointed to several examples of innovation created through the fusing or merging of two distinct ideas or capabilities:

- The fusion of banking and franchising has given Bank of Queensland in Australia (www.boq.com) a unique platform that is growing rapidly and achieving superior service results.
- The fusion of chemistry and dining has created the innovative and award-winning preparations of The Fat Duck, (www.fatduck.co.uk) where such things as sardine-on-toast sorbet can be found.
- By combining their personal alert device with a watch, Lifeline Systems (www.lifeline.ca) has created multi-function jewellery that will meet their customers' desire for an unobtrusive device that can be worn undetected by others.
- Bringing together a reliable supply of actors with an industry – financial services – that requires substantial face-to-face selling created an opportunity for e-roleplay (www.e-roleplay.com) to create a unique approach to training.
- Tata Motors (www.tatamotors.com) has announced plans to build an inexpensive vehicle that can be shipped unassembled, bringing an Ikea approach to distribution into auto manufacturing. The result should be a vehicle that is inexpensive enough to attract a previously untapped market.

The raw materials for this approach are a clear understanding of the organization's strengths, and a focus on customer needs or market opportunities.

"Innovation is not looking for the opportunity for a radical new thing that someone's never thought of, it's usually the blending or the fusion of two distinct concepts. One of the keys is to always be looking for ingredients that could be combined innovatively."

Galvanizing Focus by Articulating Priorities

“Usually in organizations we try to cover up mistakes, lost accounts, bad incidents. A culture for innovation needs sharing and uncovering of the bad stuff. We need to uncover mistakes and talk about them. They are opportunities to think about the challenge with a fresh set of eyes.”

Organizations with too many priorities will not see significant benefits from innovation. Making genuine progress on difficult problems through innovative requires a clarity of focus on a few major priorities.

Leaders need to articulate for the organization the need for innovation, and where innovation is wanted. Organizations that can focus on a few areas of priority stand a much greater chance of achieving alignment and success with their innovations than organizations that try to take on too much, or cannot articulate their priorities.

“There’s a consistent galvanizing focus. You only get to make a few big decisions in a year. You have to choose”

BB&T Bank of North Carolina (bbt.com) was suggested as an organization that is very good at maintaining a focus on “the big five” priorities. This phrase is pervasive in the organization at all levels – there cannot be more than five priorities at any time.

The organization needs to have a direction for innovation that is three to five years in the future, and to keep the vision fresh in response to the changing customer and competitor environment.

Articulating the Value for Customers

Panelists noted that some very innovative products have failed, less because of timing than because the organization failed to articulate the benefits of the product to the market. Newton, introduced by Apple in 1993, was one example named. Although the Newton had several breakthrough features, and continues to have a core following of loyal users, it was withdrawn from the market in 1998. The personal digital assistant market was ultimately created by others, starting with the PalmPilot, launched in 1996 by US Robotics. An important role of management is therefore communicating customer value.

“One of the roles of management is to determine how to bring the client base or end user in, to find a way to frame and articulate and ease them into the value of the innovation.”

The Benefits of Problems and the Dangers of Dominance

The gifts of SARS

For Toronto’s health care sector, the SARS crisis created an opportunity to take a fresh look at many difficult local and systemic issues, and provided

"If everyone is responsible for innovation, then is anybody responsible?"

a significant, compelling case for making changes. The health care sector tends to attract individuals "with heart", who are not necessarily motivated to make changes by economic arguments alone. SARS showed that changes were needed in order to have the capacity to handle the next similar event effectively.

"We were able to do a whole lot of things differently because of the instability. One of our new terms is "the gifts of SARS.""

For most organizations, the market provides the pain, through lost customers or other changes. This market challenge creates the opportunity for focus that then drives the innovation.

Dominance breeds complacency

Our executive panelists agreed that a dominant market position can create a cockiness, arrogance or simply complacency that is dangerous to the future of the enterprise. The very competencies that have been the source of an organization's strength then become the conventional wisdom that limits innovative thinking.

In this type of environment, a little bit of failure can be galvanizing. One panelist spoke about the loss of a major account to a competitor which created the impetus to re-examine their distribution model. By deconstructing the reasons for the lost business, rather than rejecting the information as aberrant, the organization was able to use the problem to craft new approaches to a specific market. The success of the revised approach in one market is now being followed to determine whether a wider roll-out should occur in other markets where there has been no loss of accounts.

Sane Paranoia as an Antidote to Entitlement

The antidote to entitlement is to seek out the pain in an organization or its customers. Effective leaders are those who cultivate a sense of "sane paranoia". By "relentlessly scanning the horizon" for innovative developments and market threats, then articulating these to the organization, leaders can help their organizations avoid the complacency of entitlement.

Creating the Climate for Innovation

Executive leaders are not necessarily the ones who need to generate the innovative ideas, but our panelists saw them as squarely responsible for creating the organizational climate that would support innovation.

Several key leadership behaviors were mentioned in the discussion:

"You can't underestimate the importance of courage. It means you are going to fight for it, fight against orthodoxy."

- Being personally open to new concepts, new information, new approaches, new ideas. *"Staying curious."*
- Encouraging employees to promote ideas for improvements and changes.
- Reducing the barriers to sharing and trying new ideas.
- Articulating the landscape of future pain – help the organization see what pain will be experienced in the future without sufficient innovation today.
- Creating a clear focus to avoid diffusion of energy.

Organizational Culture as Enabler or Dis-enabler

Organizations can create a climate of that enables innovative thinking, by providing the time and opportunities for staff to look at processes. Alignment on the goals of innovation across the organization is critically important, including tying innovation to compensation.

Where trying something new means taking on too large a risk, few innovations will see daylight.

"Boiling it down to the numbers, if you look at how many times innovations work, maybe two times out of 10. But if you make a mistake, you could find that it's one, two, three and you're out."

During a time of organizational crisis, when the stakes for the whole organization feel very high, panelists thought this could help get an organization moving on needed change and new approaches. This might include making changes in long-time management or staff to bring in people with new approaches or fresh thinking. But the group also felt that letting these high stakes environments take hold on a permanent basis creates a great deal of negative emotion that becomes a barrier to change, growth and innovation.

"Companies tend to operate like tribal entities, using shame and fear. Most of us have lived it. We try to avoid shame and a climate of fear, but it's there and it's constant."

Performance Management

By improving the quality of performance management, an organization may be able to reduce the fear of taking a risk. There needs to be clear distinctions between the different types of situation that led to a failure in performance:

"Companies are sandwiched between innovation and making investors happy. You stifle the innovation because you need the cash flow."

- Where the individual have known better, but did not act appropriately. (A genuine performance issue).
- Where the individual simply not know what to do? (A knowledge or training issue).
- Where the individual was appropriately trying to innovate, and it just didn't work out. (Don't punish the failure).

By making performance standards more explicit, management may be able to achieve a reduction in fear of failure without losing individual accountability.

Obedience to The Street

"There are powerful forces not to innovate."

While young organizations are rewarded by the capital markets for innovation, the situation changes considerably with a mature organization. the need for consistent and predictable earnings performance is seen as a significant barrier to risking failure, and an thus becomes an enabler of the status quo:

"It's hard to create that innovative culture and that environment. In large publicly traded mature organizations, that is not how we measure success."

Small entrepreneurial ventures may be better positioned to launch dramatic innovations because they are dealing with private capital, seeking high-risk, high-payoff opportunities.

Some panelists saw start-ups as being better positioned than established players to find funding for innovation. The pool of venture-capital seeking opportunities with small firms who can achieve growth through innovation is large. The VCs are not looking for incrementalist approaches, which do not offer sufficient opportunity.

By contrast, inside a large organization, there are many competing demands on capital. With limited ability to demonstrate clear return on investment, the internal innovation may have a harder time gaining funding.

Nevertheless, the forces of venture capital are seen as a potentially helpful balancing force against the forces of The Street, since they will launch new competitors that threaten established businesses that don't keep up.

"It's like the music industry. If you don't keep up, you wind up going to Vegas"

"I've had the experience of taking the time out and getting the ideas. That works relatively well. But then your free time is up, and everybody goes back to their organizational roles. The people go back, and go to their e-mail and to their day to day problems."

Sustained Innovation a Challenge

One of the most significant questions that came up in the discussion is how to find ways to sustain innovative practices over time.

Our panel was very aware of organizations that have been leading innovators in the past, but are now having difficulty sustaining their success. Wal-Mart was mentioned as a noteworthy case:

"Wal-Mart, is suffering badly. If there are innovations happening at Wal-Mart, they're not innovations big enough to move the needle."

By creating the climate and culture that can support innovation, leaders hope to be more able to sustain it in future. Creating the organization's capability to learn was suggested as an approach to sustained growth.

Enhancing the Capacity for Dialogue

Creating events that can engage employees and promote constructive dialogue across the organization is seen as a potentially useful approach to supporting innovation.

For some, the challenge of these events is taking the list of ideas that they generate and following through with some meaningful action. There is rarely enough organization capacity to act on the many good ideas that are generated. For others, the chief benefit of these engagement events is the carry-over from the event to the workplace, enhancing the organization's ability to learn through dialogue.

Open Space Technology, a group interaction methodology created by Harrison Owen, and similar high-involvement approaches were seen as potentially useful in helping organizations create breakthrough dialogues that support innovation.

Four Seasons Hotels (www.fourseasons.com) was cited as an organization that has successfully systematized a process to encourage the flow of ideas from all levels of the organization, from the housekeeping staff to the top of the organization.

Organizations need to avoid forcing so much productivity into the environment that casual "hallway conversations" are shut down, since these are often the incubators of innovative thinking, sharing of challenges and information that are important for the organization.

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For more information about the Business Pulse Project on Innovation, please contact Alan Middleton, PhD. or Elaine Gutmacher at Schulich Executive Education or any of the research partners listed above.

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Resources mentioned by panelists included:

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